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SUBJECT: BACHELET'S IDEA OF REGIONAL INTEGRATION: IS IT
FOR REAL?

Classified By: Deputy Chief of Mission Emi Yamauchi. Reasons: 1.4 (b and d)

11. Summary: Beginning in her campaign last fall, President Michelle Bachelet made clear she would focus on domestic issues and improving Chile's relations within the region. Historical border disputes, the threat of domestic instability in Bolivia and Peru, economic uncertainty in Argentina, and Chile's own traditional inward focus have kept previous Chilean governments from finding serious, long term allies among its immediate neighbors. Despite its export-oriented trade success with much of the world, Chile continues to look for better relations and economic integration in the Southern Cone. Driving GOC foreign policy at this point are the "open regionalism" or "regional integration" themes of the Bachelet administration. End Summary.

"Open Regionalism"

12. (U) While President Bachelet has made clear that her primary focus will be on domestic issues, she made time early on in her administration to reach out to Chile's neighbors. Her first Presidential visit abroad was to Argentina. She has since visited Uruguay, Paraguay, Brazil, Argentina again (for the MERCOSUR summit), and Peru (for President Garcia's inauguration). She reportedly has plans to visit Ecuador in the next few months, and will attend President Uribe's inauguration in Colombia in August. FM Foxley, Energy Minister Ponichik, and a number of deputy ministers have also made early trips within the region. Bachelet has hosted Bolivian President Evo Morales and Peruvian President-elect Alan Garcia in Santiago.

13. (U) The GOC's foreign policy, particularly its trade policy, has not focused on South America in recent years. Chile has instead sought to develop some of its most positive relationships outside the region. While that focus will not likely diminish, there have been very public pronouncements about trying to integrate Chile's more immediate neighbors into that approach. In a July speech to the Chilean Asian-Pacific Foundation, FM Foxley touted a policy of "open regionalism" in which Chile would improve relations with its neighbors while still remaining open to the rest of the world.

A Need for Improvement

¶4. (SBU) Due to long standing territorial and maritime issues with Bolivia and Peru, and recent policy shifts by Argentina on energy exports, Bachelet may have difficulty cementing close ties amongst her immediate neighbors. In a recent survey by Adimark, a reputable non-partisan polling service, major Chilean business leaders responded that they would avoid doing business in Bolivia (66 percent), Venezuela (52 percent), Argentina (47 percent), or Peru (43 percent). By comparison, less than 10 percent said they would avoid business in Iraq (8 percent), Iran (6 percent), or Haiti (4 percent).

¶5. (C) A growing rift within Bachelet's ruling Concertacion coalition on her regional policy has surfaced regarding political repression in Cuba, Venezuela's bid for a seat on the UN Security Council, and bilateral commercial discussions with the governments of Argentina and Bolivia. The one true bright spot for Chile was the election of Garcia in Peru. There is every indication that Chile intends to forge closer and more formal trade and military ties with Peru. Chile would also like to see Peru become more integrated into APEC, which dovetails nicely with its version of "open regionalism."

Regional Relations

¶6. (U) MERCOSUR: President Bachelet attended the July 20-21 MERCOSUR summit in Cordoba, Argentina. With the summit dominated by the Castro-Chavez political agenda, Chile's press expressed concern about the changing balance of power in the region. Chavez's entry into MERCOSUR is seen by Chileans as coming at Brazil's expense. Additionally, there was some disappointment in the minor role President Bachelet

played at the summit. Bachelet emphasized core economic principles and "regional integration," but her comments on her policy of "open regionalism" received very little press attention.

¶7. (C) CHILE-BRAZIL: In Chile's eyes, Brazil has been the most important country in the region, both economically and politically. With its size, resources, and international influence, a strong Brazil could lead the region in solving many of the regional challenges that Chile feels it cannot surmount on its own. Chileans have expressed concern about Brazil's loss of influence to Venezuela. Several Chilean politicians have stated publicly that it is essential for Brazil and Chile to work together on the direction of policy in South America. Bachelet visited Brazil in April and has repeatedly affirmed -- both publicly and privately -- the importance of the Chile-Brazil relationship. A good example of the power of Brazil's influence on Chile is the upcoming vote for Venezuela or Guatemala for the non-permanent UNSC seat. Brazil's early and public declaration of support for Venezuela could ultimately be the deciding factor in Bachelet's own choice.

¶8. (C) CHILE-PERU: With Garcia as president in Peru, Chile sees great promise for improved relations. Garcia had a very positive visit to Chile on June 22, and is known to have strong personal and political ties to Bachelet's administration as well as the ruling Concertacion coalition. He has also expressed interest in reintegrating Chile into the Community of Andean Nations (which Chile left in 1976). Further, Garcia's Peru is a logical member of a Brazil-Chile-Peru alliance to counter Cuba-Venezuela-Bolivia influence in the region. As Chile increasingly looks to Asia for trade partners, Peru could be an important partner, especially within the context of APEC.

¶9. (U) CHILE-BOLIVIA: Discussion of the Chile-Bolivia relationship generally centers around Bolivia's demand for sovereign access to the sea and its subsequent refusal to sell natural gas to Chile until this access is provided. The two nations have not had full diplomatic relations since 1978, and Bolivia has gone so far as to call on Argentina to

refuse to sell energy to Chile. The vice-chancellors of Chile and Bolivia recently agreed to discuss, among other things, the sea access issue. Bachelet and Morales met briefly at the MERCOSUR summit, but she has repeatedly stated that no sovereign Chilean territory will be ceded to Bolivia.

Their discussions yielded no major breakthroughs. While steps such as the May 1 nationalization of oil and gas caused concern in Chile, particularly as to how it affected international perceptions of the region, there is hope in Chile that Morales will provide Bolivia some much needed political stability.

¶10. (C) CHILE-ARGENTINA: Bachelet's decision to take her first overseas trip as president to Argentina signaled the relationship's importance to Chile. Although Bachelet and President Kirchner pledged to work together on a variety of issues (mining, tourism, culture, and border crossings), it is Argentina's natural gas policy that overshadows everything else. Chile imports nearly 90 percent of its natural gas from Argentina; almost all of it is destined for use by Chile's industries. Argentina's unilateral cuts of up to 50 percent in the winter of 2005 and again this year heightened Chile's sense of energy vulnerability. Argentina's unpredictable moves have left the Chilean Government on the defensive with everyone from factory owners to average consumers. Working with Kirchner appears to be ever more difficult for the Chileans as his quirky and exclusively domestic focus hinders attempts to bring Argentina and Chile into a more strategic partnership.

COMMENT

¶11. (C) Despite the avowed interest in promoting regional integration, Bachelet does not seem willing to exert leadership. She has generally positive relationships with Garcia in Peru and Lula in Brazil and has kept lines of communication open with Morales in Bolivia and Kirchner in Argentina. She is somewhat constrained by Chile's long tradition of being successful at building strong bilateral trade relationships outside South America. To help the region develop into a more unified (and wealthier) block, it

is in our interests for Chile to show some leadership, especially in multilateral fora.

¶12. (C) Unfortunately and somewhat inexplicably, Chile has not made an effort to play up successes that would highlight its regional focus. The GOC keeps a low profile on matters such as its peacekeeping deployment in Haiti, having Chilean Jose Miguel Insulza as the OAS Secretary General or the Chilean rescue flight that evacuated 114 Latin Americans from the conflict in Lebanon. Chile rescued its own citizens and provided door-to-door service from Damascus for Spaniards, Peruvians, Brazilians and Argentines. Despite the initial rhetoric of placing a focus on regionalism, it is clear the Chilean political establishment does not instinctively think in these terms.

¶13. (C) Chile is a successful model and could be a strong leader in the region. However, Chile's ability to lead is constrained by two factors. First, Chile's ability to think locally does not come naturally or easily for a country so trade-focused on the rest of the world. Chile tends to think and act most comfortably in bilateral fora. Therefore, developing a regional focus will be something new for Chile. Second, Chile does not want to be out of synch with Brazil and Argentina. In that regard, Chile looks to them on issues such as whom to support for the rotating UNSC seat. While the words are there, Chile has a long way to go in developing a consistent, long term policy that will give it the regional image and relationships Bachelet desires.

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